

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 PA-01 PRS-01 AGR-05 PM-04 SAM-01 FEA-01

OES-03 HUD-01 IO-10 CEQ-01 EPA-01 INT-05 /124 W

----- 052088

R 131316Z AUG 75

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 5781

INFO AMEMBASSY DAMASCUS

AMEMBASSY AMMAN

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 BEIRUT 10324

E.O. 11652: GDS

TAGS: ECON

SUBJECT: THE LEBANESE ECONOMY--CRISIS AS A MEANS OF OVERCOMING
TRADITION

REF: (A) BEIRUT 9878; (B) BEIRUT 9375; (C) BEIRUT 9378

SUMMARY: EFFORTS BY THE GOL "TO DO SOMETHING" TO STILL
THE SOCIAL UNREST THAT HAS BEEN PARTLY THE CAUSE OF THE
CURRENT CRISIS HAVE SERVED TO HIGHLIGHT BASIC FLAWS IN
THE PUBLIC SECTOR, WHICH HAS BEEN TRADITIONALLY NEGLECTED
IN FAVOR OF THE DYNAMIC PRIVATE SECTOR, UP TO NOW RESPON-
SIBLE FOR ONE OF THE HIGHEST LEVELS OF PROSPERITY IN THE
AREA. THUS, BY MAKING AN INCREASING NUMBER OF PEOPLE
MORE AWARE OF THE NEED FOR FUNDAMENTAL REFORMS, THE
VERY SERIOUSNESS OF THE CRISIS, WHILE ENDANGERING THE
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COUNTRY, COULD CONTRIBUTE BETTER TO ASSURING ITS SURVIVAL.

END SUMMARY

1. AS REPORTED IN PARA 5 OF REF (B), THERE IS A GROWING VIEW IN THE BANKING AND ECONOMIC COMMUNITY THAT THE GOL COULD AND SHOULD FLOAT A LL 600 - LL 1000 MILLION TREASURY BOND ISSUE TO COVER EXPENSES NEEDED TO STILL THE SOCIAL UNREST THAT HAS BEEN PARTLY AT THE ROOT OF THE PRESENT CRISIS. A SPECIFIC PROPOSAL ALONG THESE LINES WAS MADE BY THE PRESIDENT OF THE CHAMBER OF COMMERCE AND INDUSTRY, ADNAN KASSAR. THE PROPOSAL AT LEAST OFFERS AN ALTERNATIVE TO PREVIOUS THINKING WHICH CONCENTRATED ON THE VIRTUES OF A BALANCED BUDGET. (IT IS RELIABLY REPORTED THAT PRIME MINISTER KARAME HAS NO GRASP AT ALL OF THE BASICS OF FISCAL AND MONETARY POLICY. ADDED TO THIS IS THE FACT THAT HIS FINANCIAL ADVISORS ARE KNOWN TO BE VERY CONSERVATIVE ON BUDGETARY MATTERS.)

2. THE IDEA OF BORROWING HAS MET WITH LITTLE OPEN OPPOSITION SO FAR AND, WHILE SOME ARE PROBABLY IN FAVOR OF IT SELFISHLY--I.E., ON THE GROUNDS THAT IT MIGHT REDUCE IMMEDIATE PRESSURES TO RAISE TAXES--THERE ARE THOSE WHO GENUINELY SEE IN IT A MORE LOGICAL AND MORE EFFECTIVE SOLUTION, PROVIDED OF COURSE THAT THE SUMS SO RAISED WERE SPENT WISELY AND HONESTLY. THIS PROVISIO WOULD BY NO MEANS PERFORCE PREVAIL. INDEED THE VERY INCREASED EFFORT NOW BEING MADE "TO DO SOMETHING" IN THE DEVELOPMENT AND SOCIAL WELFARE FIELD (AN EFFORT THAT INCLUDES, IT SHOULD BE STRESSED, SOME VERY INTELLIGENT AND DEDICATED PERSONS OF INTEGRITY) SEEMS TO HAVE HIGHLIGHTED SOME OF THE COUNTRY'S FUNDAMENTAL FLAWS, WHICH INCLUDE SELF-CONTRADICTING ATTITUDES TO PROBLEMS, LACK OF PLANNING, BUREAUCRATIC INCOMPETENCE, IGNORANCE OF BASIC FISCAL AND MONETARY PRINCIPLES, AND A POLITICAL PATRONAGE APPROACH TO ALMOST EVERYTHING. EXAMPLES OF THIS RATHER LAMENTABLE SITUATION FOLLOW:

A. TO BEGIN WITH, WE HAVE ALREADY NOTED THE CONTRADICTORY APPROACHES REGARDING THE BUDGET. ON THE ONE HAND, THERE IS THE ALMOST "GROCERY STORE" CONFIDENTIAL

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CEPT OF A BUDGET IN BALANCE, WITH ADDITIONAL FUNDS TO BE OBTAINED FROM "CHARITABLE CONTRIBUTIONS" BY THE BANKING AND INDUSTRIAL COMMUNITIES OR FROM WEALTHY ARAB COUNTRIES, OR EVEN FROM THE UNITED STATES (IT IS EXTRAORDINARY HOW MANY LEBANESE STILL MAINTAIN A "MARSHALL PLAN" MENTALITY). CONTRASTED TO THIS IS THE MORE RATIONAL CONCEPT OF GOVERNMENT BORROWING, CONSTRAINED WITHAL BY THE FEAR THAT WHAT WOULD BE RAISED WOULD BE

MISUSED.

B. AT THE VERY MOMENT THAT IMPORTANT PROJECTS REPORTEDLY CANNOT BE IMPLEMENTED FOR LACK OF FUNDS, IT IS DISCLOSED THAT THE MAJOR PROJECTS OFFICE HAS LL 250 MILLION IN SURPLUS FUNDS TO COVER PROJECTS IT HAS NOT YET BEEN ABLE TO IMPLEMENT. UNDER A WORLD BANK LOAN TO HELP FINANCE A PLAN TO CONSTRUCT SEVERAL HUNDRED SCHOOLS, ONLY THREE SCHOOLS HAVE BEEN BUILT SO FAR. ANOTHER WORLD BANK LOAN OF \$50 MILLION FOR THE IRRIGATION OF THE SOUTH BEKAA REMAINS FROZEN BECAUSE THE GOL HAS FAILED TO PUT THROUGH SOME REQUIRED LEGISLATION, MAINLY AIMED AT PREVENTING THE LARGE LAND OWNERS FROM HARVESTING A WINDFALL WHEN THE PROJECT IS IMPLEMENTED. PLANS COVERING UTILIZATION OF PL 480 COUNTERPART FUNDS FOR DEVELOPMENT HAVE NEVER MATERIALIZED, DESPITE YEARS OF PRODDING ON OUR PART, POSSIBLY (IT IS DARKLY RUMORED) BECAUSE THE COUNTERPART ACCOUNT HAS BEEN DIVERTED FOR OTHER PURPOSES.

C. UNREALISTIC PLANNING ESTIMATES ARE A COMMON FAILING. WHEN THE GOVERNMENT DECIDED TO GO FULL STEAM AHEAD ON A PLAN TO IRRIGATE SOUTH LEBANON, IT SEEMED GENUINELY SURPRISED THAT COMPLETION OF THE PLAN WOULD TAKE EIGHT YEARS RATHER THAN EIGHT MONTHS, EVEN THOUGH THE PLAN HAD BEEN ELABORATED IN DETAIL ONLY A YEAR AGO, WHEN LL 191 MILLION WAS AUTHORIZED OVER A SEVEN-YEAR PERIOD TO COVER COSTS.

D. A NOTE OF UNREALITY IS EVIDENT EVEN IN AN AREA WHICH, IT IS GENERALLY ACCEPTED, CRIES FOR ATTENTION: HOUSING. A CRASH PROGRAM IS REQUIRED FOR THOSE WHO NEED HOUSING DESPERATELY BUT CANNOT PAY FOR IT. PRIN-
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CIPAL EFFORTS SO FAR, HOWEVER, APPEAR TO HAVE BEEN CONCENTRATED ON HOUSING FOR THOSE WHO CAN PAY FOR IT SO LONG AS ADEQUATE LONG TERM CREDIT WAS AVAILABLE (MAINLY BY IMPLEMENTING A 15 YEAR OLD PROJECT).

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OES-03 HUD-01 IO-10 CEQ-01 EPA-01 INT-05 /124 W

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R 131316Z AUG 75

FM AMEMBASSY BEIRUT

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AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 2 OF 2 BEIRUT 10324

E. EVEN THOUGH PARLIAMENTARY PRESIDENT KAMEL ASSAD WAS APPARENTLY PROMISED A CONTRIBUTION OF LL 10 MILLION FOR "HIS" COUNCIL OF THE SOUTH (WHICH HELPS COMPENSATE THOSE SUFFERING FROM ISRAELI RAIDS) ON THE UNDERSTANDING THAT ASSAD WOULD ARRANGE FOR A SPECIAL SESSION OF PARLIAMENT TO PASS URGENT LEGISLATION, HE HAS DONE LITTLE TO KEEP HIS SIDE OF THE BARGAIN IN THE FACE OF FOOT-DRAGGING BY OTHER DEPUTIES. WHEN MEASURES THAT MIGHT BE UNPLEASANT TO CONSTITUENTS ARISE, QUORUMS HAVE A HABIT OF EVAPORATING. (LET THE ONUS, IT IS ARGUED, BE PLACED ON THE GOVERNMENT, WHICH CAN PASS THE REQUIRED MEASURES BY DECREE.) THUS WHILE A QUORUM WAS MUSTERED TO INCREASE INCOME TAXES BY FIVE PERCENT, IT DISAPPEARED WHEN TIME CAME TO PASS A MOST NEEDED REAL ESTATE CAPITAL GAINS TAX. FROM THIS ONE MIGHT CONCLUDE THAT THE INCOME TAX MEASURE COULD BE FACED BECAUSE IT CONFIDENTIAL

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IS KNOWN THAT FEW PAY INCOME TAXES, WHILE THE CAPITAL GAINS TAX COULD NOT BE FACED BECAUSE PAYMENT BY THOSE CONCERNED WOULD BE UNAVOIDABLE.

F. MOST APPALLING OF ALL IS THE PROBLEM OF POLITICAL

PATRONAGE, WHERE THE MOTTO SEEMS TO BE "PORK BARREL UEBER ALLES". ONE OF THE PROBLEMS FACING THE GOVERNMENT IS WHAT TO DO WITH THE 1000 PEOPLE THE FORMER HEALTH MINISTER PLACED ON THE PAYROLL ON THE PRETEXT THAT THEY WERE NEEDED FOR THE OCTOBER WAR, ALTHOUGH MOST WERE HIRED AFTER THE WAR, IN SOME CASES AT THE RATE OF ELEVEN DRIVERS PER AMBULANCE. IN ANOTHER FLAGRANT INSTANCE, LL 40 MILLION WAS ALLOCATED FOR PRIME MINISTER KARAME'S TRIPOLI FAIR, A NOTORIOUS WHITE ELEPHANT AND ALMOST A TOTAL WASTE OF TIME, ON WHICH AN EQUAL AMOUNT HAS ALREADY BEEN SQUANDERED. THEN, IN YET ANOTHER CASE, LL 30 MILLION WAS VOTED FOR INDUSTRIAL DEVELOPMENT, BUT WAS MADE AVAILABLE NOT TO THE BANK FOR INDUSTRIAL DEVELOPMENT, THE LOGICAL CHOICE, BUT TO THE BANK FOR AGRICULTURE AND INDUSTRY. THE FORMER WAS ORGANIZED A FEW YEARS AGO AS A GOVERNMENT-CONTROLLED UNIT, PARTLY BECAUSE THE LATTER, IN WHICH THERE IS A MINORITY GOVERNMENT SHARE, PROVED INCOMPETENT FOR THE JOB. BUT THE LATTER IS HEADED BY THE HONORARY PRESIDENT OF THE INDUSTRIALISTS' ASSOCIATION, BOUTROS KHOURY, WHO HAS MANY POLITICAL FRIENDS AND WHO IS NOTORIOUS FOR GRANTING CREDIT ON THE BASIS OF FAVORITISM. NOR HAS THE PRESIDENT OF THE REPUBLIC BEEN NEGLECTED IN ALL THIS. FOLLOWING THE SEVERE ISRAELI RAIDS ON LEBANON IN JUNE 1974, AN AMOUNT OF LL 35 MILLION WAS COLLECTED FROM THE ARAB COUNTRIES TO HELP REPAIR THE DAMAGE IN THE SOUTH. OF THIS AMOUNT LL 12 MILLION WILL NOW BE USED FOR PRACTICAL PROJECTS THAT ARE SIMPLE AND QUICKLY REALIZABLE, SUCH AS CREATING WATER STORAGE PONDS, DRILLING WELLS, ETC. HOWEVER, THE BALANCE OF LL 23 MILLION WILL BE TURNED OVER TO PRESIDENT FRANGIE FOR PROJECTS REQUIRING "HIS PERSONAL APPROVAL", AS THE OFFICIAL RELEASE SO PROUDLY ANNOUNCES. ALL IN ALL, IT IS LITTLE WONDER THAT FEARS EXIST THAT MUCH OF WHAT COULD BE RAISED BY BORROWING MIGHT BE SQUANDERED (IF NOT MISAPPROPRIATED).

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3. IN A SENSE THE COUNTRY IS THE VICTIM OF ITS OWN DEVICES. IT HAS TRADITIONALLY NEGLECTED THE PUBLIC SECTOR IN FAVOR OF THE PRIVATE SECTOR, WHICH UP TO NOW HAD BEEN THE SOURCE OF ITS REMARKABLE DEVELOPMENT. POLITICIANS HAVE HERETOFORE BEEN ABLE TO VIEW SOLVING PROBLEMS IN THE PUBLIC SECTOR ALMOST EXCLUSIVELY IN TERMS OF A CAREFULLY BALANCED DIVISION OF POLITICAL AND FINANCIAL SPOILS. YET IT WOULD SEEM FALSE TO ALLEGE THAT THE PRESENT CRISIS HAS CHANGED NOTHING, FOR IT HAS HELPED TO MAKE A GREATER NUMBER OF PEOPLE MORE CLEARLY AWARE OF THE BANKRUPTCY OF THE OLD SYSTEM WITHIN THE CONTEXT OF THE NEW DEMANDS THAT

ARE BEING PLACED ON IT. CLEARER AND MORE WIDESPREAD
REALIZATION COULD BRING A CHANGE.

4. THE CRUX OF THE MATTER IS THE WILL TO CHANGE. FAIL-
ING OR REFUSING TO ACCEPT THAT THEY HAVE SUFFICIENT MATE-
RIAL AND INTELLECTUAL RESOURCES TO SOLVE THEIR OWN
PROBLEMS, THE LEBANESE HAVE SO FAR LIVED IN A DREAM
WORLD, WAITING FOR THAT UN OR US EXPERT WHO WILL
SET EVERYTHING RIGHT AND THAT LOAN OR GIFT FROM
THEIR WEALTHY ARAB BROTHERS WHICH WILL COVER THE
COST OF IT ALL. IT IS THE ALMOST PERFECT PRETEXT
FOR DOING NOTHING AND FOR CHANGING NOTHING. THE FACT
THAT FAR MORE LEBANESE ENGINEERS, DOCTORS, ETC. LEAVE
THE COUNTRY THAN FOREIGN EXPERTS ARRIVE, THE FACT THAT
LEBANESE BANKS ARE FINANCING PROJECTS IN EUROPE AND
LENDING MONEY TO THE WORLD BANK, HAVE BEEN SIMPLY AND
CONVENIENTLY IGNORED UP TO NOW.

5. THUS, THE QUESTION OF THE HOUR IS WHETHER THE VERY
SERIOUSNESS OF THE SITUATION WILL BE SUFFICIENT TO
JOLT ENOUGH PEOPLE OUT OF THIS COMPLACENCY.
GODLEY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC RECOVERY, GOVERNMENT BONDS, ECONOMIC REPORTS, BUDGET DEFICITS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BEIRUT10324
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750279-0979
From: BEIRUT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750854/aaaabvhi.tel
Line Count: 299
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 BEIRUT 9878, 75 BEIRUT 9375, 75 BEIRUT 9378
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2003 by ShawDG>; APPROVED <06 OCT 2003 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: THE LEBANESE ECONOMY--CRISIS AS A MEANS OF OVERCOMING TRADITION
TAGS: ECON, LE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006